

RESEARCH

Indian consumers to spend \$3.6T by 2020: BCG

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By RACHEL LAMB

The quickly-growing, affluent Generation I, a demographic of Indians who grew up in the 1990s, will be responsible for 26 percent of total spending in the country before 2020, according to findings from a study by Boston Consulting Group.

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Household income is expected to rise 2.9 times between 2010 and 2020 because of the expansion of the middle class and affluent segments. In fact, overall Indian consumer spend is expected to grow 3.6 times in the next decade, increasing from \$991 billion in 2010 to more than \$3.6 trillion in 2020.

"Affluent segments are the fastest-growing segments in India," said Abheek Singhji, Mumbai, India-based partner of the Boston Consulting Group and coauthor of the report. "The income increase is driven by increased GDP growth, greater opportunities in an entrepreneurial market and better job opportunities."

"The 'Gen I,' as we call the generation of Indians who have grown up in the 1990s, are driving this change," he said. "The data shows that India is about eight years behind China, on average, in terms of category potential, [meaning] that in some luxury categories, India could be where China is by 2020."

A new generation

Household income is expected to rise 2.9 times between 2010 and 2020 because of the expansion of the middle class and affluent segments.

Affluent consumers will be responsible for 26 percent of consumption, but will only be in 8 percent of households, according to BCG.

The main reasons behind this surplus of affluent consumers is driven by greater urbanization, nuclearization of the family and, most importantly, by changes in attitude, which are largely driven by age, per Mr. Singhi.

According to the study, the share of the population living in cities will rise to 35 percent in 2020, an increase from 31 percent in 2010.

Urban dwellers have a better access to goods than rural residents.

In addition, households are becoming less traditional and spending more per capita.

The share of traditional joint families – that is, extended family members living together – fell from 39 percent in 2006 to 34 percent in 2010.

Gen I has grown up in a period of economic liberalization and social freedom, and the members of this generation are entering their prime spending years, per the study.

In fact, they are equivocal in terms of spending in India as baby boomers are in the West.

BRIC and mortar

The 14 percent growth rate of Indian consumer spending is faster than the anticipated annual global growth of 5.5 percent, and speedier than the predicted 9 percent of emerging market growth.

By 2020, India will constitute 5.8 percent of global consumption, more than double of the 2.7 percent now, per the study.

“It is also clear that early entrants to the Indian market have been able to establish significant advantage,” Mr. Singhi said. “So luxury brands have a window of opportunity to establish their presence in the Indian market and reap the benefits a few years [earlier].”

Luxury brands need to focus on accessing these individuals for the purpose of providing branded information and for physical access.

Providing information about the brand can be done through a multichannel approach, since media habits vary by education, occupation and age, per Mr. Singhi.

In terms of physical access, brands may want to consider reaching affluent Indian consumers outside of the country.

Many affluent Indians prefer to shop in Dubai, Singapore or London because the variety is greater and newer and the store experience is better, claims Mr. Singhi.

Improvement in the Indian retail environment and changed regulations are likely to make the Indian stores a great access point, but that may not be for a short while.

Finally, luxury marketers should focus on building brand advocates so that they can share information and brand news with friends and family.

"Advocacy marketing is the most effective way to market to these consumers," Mr. Singhi said. "The affluent are well-connected and exposed to media.

"They know of global and local brands and hence decide on the basis of their personal experience with the brand or from what they hear from trusted friends," he said.

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